TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 1817 - SB 2241

February 3, 2018

SUMMARY OF BILL: Authorizes any retiree whose first employment with a participating local education agency (LEA) commenced before July 1, 2015 and who initiates state service after that date to receive health benefits, provided the retiree did not accept a lump sum payment from the Tennessee Consolidated Retirement System (TCRS) before July 1, 2015. Authorizes any retiree whose first employment with the state commenced before July 1, 2015 and who initiates service with a participating LEA after that date to receive health benefits, provided the retiree did not accept a lump sum payment from the TCRS before July 1, 2015.

Authorizes any local government employee whose employment with a participating local government agency (LGA) commenced on or after July 1, 2015 to receive health benefits upon retirement. Authorizes any local government employee whose employment with a participating LGA commenced before July 1, 2015 and who returns to service with the participating LGA after that date to receive health benefits upon retirement, provided the retiree did not accept a lump sum payment from the TCRS before July 1, 2015.

Authorizes the trustees, in their discretion, to establish an investment trust or trusts for the purpose of pre-funding other post-employment benefits (OPEB) accrued by authorized employees of LEAs, to be paid as they come due in accordance with the arrangements between the LEA, the plan members, and their beneficiaries. States initial funding for the trust created for authorized LEA employees and their beneficiaries may come from appropriations made in the general appropriations act for such purpose or other sources as authorized by the trustees.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – An increase in state and local expenditures, both mandatory and permissive, to provide health benefits to certain state and local employees upon retirement. The extent and timing of any increased expenditures cannot be quantified for such impacts are dependent upon multiple unknown factors. Initial funding for the OPEB trusts will be appropriated in a future year in the general appropriations act or will come from other sources as authorized by the trustees. Funds in the OPEB trusts will be invested and will generate investment earnings to be used to offset future obligations.*

Assumptions:

- Public Chapter 426 of 2015 eliminated reciprocity in employee eligibility for health benefits upon retirement between the state and local education plans. The proposed legislation would restore such reciprocity and would likely result in a certain number of state and local employees becoming eligible for health benefits upon retirement. However, any such number is considered minimal.
- The fiscal analysis for Public Chapter 426 of 2015 did not account for any state and local savings due to the elimination of the reciprocity. Therefore, while restoring the reciprocity could result in an increase in state and local expenditures in future years, any budgetary impact is considered not significant. Further, due to multiple unknown factors, such as the number of state and local employees that would become qualified for health benefits upon retirement, the number of dependents to whom eligibility of health benefits would be extended, the timing of any future retirements upon which health benefits would become available, years of service of eligible retirees and associated share of state’s premium coverage, as well as many other factors, any future increase in state and local expenditures cannot be quantified with reasonable certainty.
- Authorizing local government employees hired on or after July 1, 2015, as well as certain local government employees whose employment with a participating LGA commenced before July 1, 2015 and who return to service with the participating LGA after that date to receive health benefits upon retirement will result in a future permissive increase in local government expenditures. However, due to multiple unknown factors, any such permissive increase cannot be quantified with reasonable certainty.
- The initial funding of any OPEB trust established for employees of LEAs will be from appropriations made by the General Assembly in the general appropriations act or from other sources as authorized by the trustees. The amount and timing of any such future appropriation is unknown. Funds in any OPEB trusts will be invested by the Department of Treasury (Treasury) and will generate investment earnings to be used to offset future obligations. The Governor’s recommended budget for FY18-19 does not include any funding for this purpose.
- The Treasury will utilize existing investment staff resources of the department to manage and invest funds in the OPEB trust. Any increase in expenditures to the Treasury is estimated to be not significant. Pursuant to Tenn. Code Ann. § 8-27-803, assets of the trusts may be used to pay any costs of administering the trusts.

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

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